COMMUNICATION

Coördination in Taxation[1]

The report of the Committee on Coördination in Taxation, as printed in the proceedings of the annual meeting of the American Economic Association, published as a Supplement to the AMERICAN ECONOMIC REVIEW for March, 1920, failed to include modifications and proof corrections which reached the editor or printers too late for inclusion, as did also Professor Farnam's notes of dissent, printed below.

Professor Farnam's modifications respecting the income tax amendment might well have been adopted in the report, had the notes reached the chairman with the return of the proofs submitted to the several members of the committee.

In respect to state income taxes, the New York state provision as to non-resident incomes (p. 254), which failed to provide for non-residents the same exemption as for residents, was declared unconstitutional by the United States Supreme Court in the Yale and Towne Manufacturing Company case, and the provision has been replaced by the legislature of 1920 by an amendatory bill, making the same provision for non-resident as for resident exemptions.

Attention should be given, in connection with the report, to the informing and valuable article by Professor Harley L. Lutz on "Progress of State Income Taxation since 1911," pages 66-91 of the regular number of the AMERICAN ECONOMIC REVIEW for March, 1920, which forms practically a supplement to the committee's report, but which did not reach the other members of the committee in connection therewith. Montana and West Virginia are there scheduled as additional states having income taxes, but these, like the earlier taxes in New York state and those in Connecticut, are confined to corporation incomes and are not income taxes in the general sense.

Respecting inheritance taxes (p. 257), the report fails to indicate that the federal law does not apply to estates within $50,000 and that the initial taxes apply to the first $50,000 above the exempted $50,000. On the question of whether inheritance taxes should be wholly federal or state, or partly both, the members of the committee held divergent opinions, and Professor Farnam's statement in favor of assigning these exclusively to the states should have careful consideration, as should also his plea for making income taxes exclusively national, despite the trend of current state legislation to the contrary.

[1] Addendum to report of committee. See AMERICAN ECONOMIC REVIEW SUPPLEMENT, March, 1920, pp. 248-262.

In the summary of conclusions (p. 261) there is a proof-reading error, perhaps self-evident, whereby an error in spacing the phrase "with inadequate return," *i.e.*, "without adequate return," is transformed into "within adequate return." It should be stated, in view of Professor Farnam's note of dissent on this paragraph, that it was not intended to suggest exclusion of tobacco, which produced $206,003,091 revenue in the fiscal year 1918-1919, and other commodities producing large revenue return, from normal excise taxation in time of peace, but chiefly the omission of the multifarious taxes imposed during the war on a variety of products or transactions in which especially the revenue return was small in comparison with cost of collection or annoyance to the consumer.

Professor Farnam's notes of dissent follow:

1. I cannot agree to the statement on page 250 that the Sixteenth Amendment abrogates Article I, Section 9, Sub-Section 4 of the Constitution. The amendment contains no repealing clause, and though its effect is to prevent Section 9 of Article I from being made use of to overthrow an income tax, it still leaves its provisions applicable to "capitation" and "other direct taxes." Similarly the statement on page 251 that income taxes were forbidden to the federal government by Section 9, Article I, of the Constitution is misleading, inasmuch as this interpretation was not put upon that section until more than 100 years after the Constitution had been adopted, and more than 30 years after the income tax of 1861 had been enacted and enforced.

2. I believe that more prominence should be given in the summary on page 261 to internal revenue taxes on various articles of common consumption, such as tobacco, patent medicines, matches and various activities, such as entertainments, transportation, insurance, etc. All of these are grouped with import duties in a single expression "excise taxes of large return levied on the growth or manufacture of luxury products produced throughout the country." These taxes produced in the fiscal year 1918-1919 over $640,000,000, as against $483,000,000 from alcoholic drinks, and in view of the loss of revenue to be expected from the loss of the liquor taxes, if prohibition is maintained as our permanent policy, it seems especially important to develop this lucrative group of taxes on consumption as distinguished from taxes on income or property.

3. As a matter of principle, I think that inheritance taxes should not be left within the neutral zone open both to the states and to the federal government, but should be assigned to the states. I base this

partly upon the fact that the states have control over the laws of inheritance and of the courts of probate, and should, therefore, enjoy the taxing power within the limits of their own jurisdiction. I also believe that as a practical measure it is undesirable to have two cumulative taxes upon one property or estate as we shall have, if both the federal government and states maintain their inheritance taxes.

4. I believe that the general income tax should be assigned to the federal government: (a) to avoid the double taxation referred to above in connection with inheritance taxes; (b) in order to make it impossible for people to escape their share of income taxation by taking up their residence in states with low or no income taxes; (c) to avoid conflict which is sure to arise when people who have their legal residence in one state have their business or professional headquarters in another state. H. W. FARNAM.

In case a future edition of the committee's report should be printed, these corrections and notes of Professor Farnam's views will be included in the report. R. R. BOWKER, CHAIRMAN.